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ABSTRACT

This report describes and summarizes the final report of a 1976-77 study of Vermont's system of raising and distributing educational resources. In this study, Vermont's school finance system was analyzed, several alternative school finance formulas were simulated, and an extensive school finance data set and data set documentation were compiled. This executive summary presents 30 findings and 14 recommendations contained in the final report. The research attempted to discover how educational resources in Vermont can be distributed in a way that provides greater equality of educational opportunity. It also addressed how educational revenues in Vermont can be raised in a more adequate and equitable manner. Findings and recommendations focus on educational needs and expenditures, measurement and distribution of wealth, impact of the current school finance system, and availability and reliability of data. The report also offers a list of activities the state of Vermont should undertake as part of an ongoing system of evaluation and research. (Author/JM)

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EVALUATING VERMONT'S SYSTEM OF FINANCING EDUCATION

AND

RECOMMENDATIONS FOR EQUALIZING STATE AND LOCAL EDUCATION FINANCE PROGRAMS

EXECUTIVE SUMMARY
OF THE
FINAL REPORT

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Prepared at
The Education
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of the
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1527 New Hampshire Avenue, N.W.
Washington, D.C. 20036

Rosedale Road
Princeton, N.J. 08540

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The Education Policy Research Institute (EPRI) is a new research division of the Educational Testing Service. It was founded on January 1, 1975 by Joel S. Berke with his colleagues from the Washington offices of the Educational Finance and Governance Center of Syracuse University Research Corporation. Since then, new staff members have been added in both the Washington and Princeton offices.

The Institute addresses policy issues central to educational finance and governance such as equity in resource allocation, uses of educational assessment, and effectiveness of alternative educational strategies. These problems are approached from an interdisciplinary perspective: educational, administrative, sociological, political, economic, legal, and anthropological.

EPRI maintains working relationships with the Columbia Teachers College, the Eagleton Institute of Rutgers University, the Education Law Center, Inc., the Legislators' Education Action Project of the National Conference of State Legislatures, the National Lawyers' Committee for Civil Rights Under Law, the New Jersey Education Reform Project, and the Woodrow Wilson School of Princeton University.

Joel S. Berke, Director

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EXECUTIVE SUMMARY

In Vermont, as in most other states, the financing of public elementary and secondary education has been the subject of increasing dissatisfaction and concern in recent years. Since 1971 courts in at least ten states have been involved in school finance litigation. Legislatures in at least a dozen states have made substantial changes in traditional methods of raising and distributing revenues for education and, under the Education Amendments of 1974, the federal government has provided financial aid for states to study and revise their school finance programs.

The concerns that have prompted these developments are familiar to many Vermonters. Tax systems for raising school funds are widely perceived as inequitable, often requiring residents of communities with low wealth to tax themsleves at high rates, while realizing only moderate levels of school support. By contrast, taxpayers in wealthy districts often have low tax rates, yet support their schools at high spending levels.

Problems in raising revenues represent only half the story. Expenditures on schools vary substantially throughout the state, and those differences in spending are reflected in different levels of educational services: the number and quality of teachers, the availability of counseling services, and the quality of school facilities.

This Report is an examination of the extent and the causes of such problems as they affect the schools, school children, and taxpayers of

Vermont. It also provides a discussion of some alternative approaches that might help to alleviate these problems. The Report was prepared by the Education Policy Research Institute of the Educational Testing Service under a $58,000 contract with the Vermont State Department of Education, using funds supplied by the federal government under Public Law 93-380, Section 842, the Education Amendments of 1974. The research was conducted between October 15, 1976 and March 31, 1977 under the supervision of the Educational Finance Advisory Task Force, a 15-member committee appointed by the State Board of Education. It was comprised of nine representatives of public organizations and six memebers of the Select Legislative Committee on Education Data and Statistics.[1]

The research agenda outlined in the Education Policy Research Institute contract included the following six interrelated tasks:

1. An analysis of the problems and characteristics that affect school funding in Vermont, including disparities in educational expenditures, levels of tax effort, measures of wealth, pupil characteristics, and the current tax structure.

2. An investigation of the educational goals of Vermonters as expressed in the state's constitution, laws, and regulations, and by individuals and groups within the state; and the generation of criteria to serve as a basis for determining the equity of the existing school finance system and of the alternative models.

3. An examination of the existing system of allocating resources to local educational agencies to determine whether these resources are being raised and distributed in an equitable manner.

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[1] Appendix A of the Final Report contains a list of the Task Force members, and copies of the charges to the Task Force members.

4. Identification, acquisition and refinement of an extensive school finance data set. This task required the identification and collection of relevant data from state and local government agencies, verification of the accuracy of the data, and compilation of the data on computer tape. This data set was turned over to the State Department of Education when EPRI's involvement in the study ended on March 31, 1977.

5. Simulation and evaluation of alternative school finance formulas developed by the Task Force.

6. Installation of EPRI's School Finance Equalization Management System (SFEMS) in the State Department of Education and training of personnel selected by the Department in the operation and maintenance of the system.

The Final Report

As part of its research activities, EPRI prepared four reports on the current system of raising and distributing educational resources in Vermont, simulated a number of alternative school finance formulas requested by the Task Force, and compiled an extensive school finance data set and data set documentation. The Final Report draws together the findings presented in these reports, updates the analysis contained in Report #1 and Report #2 and presents a more comprehensive analysis of the relationship between property wealth and income wealth. In addition, the Final Report contains a set of recommendations for developing a more equalizing state and local school finance system. All analysis contained in the Report is based upon 1975-1976 data provided by the Vermont State Department of Education and the Vermont State Department of Taxes. An explanation of the research methodology is provided in Appendix B of the Final Report and Appendix C contains definitions of key data elements.

The remainder of this Chapter will present a summary of EPRI's findings and recommendations, and a discussion of additional school finance issues which should be addressed in the future. Chapter II of the Final Report describes and analyzes the problems and characteristics affecting school funding in Vermont today, and Chapter III discusses the educational goals of Vermonters. Chapter IV evaluates the impact of the existing school finance system on the allocation and raising of educational resources in the State. Chapter V contains a summary of the data collected during the study and discusses problems related to data quality. Chapter VI presents a number of alternative school finance formulas simulated by EPRI and examines the impact of these changes on Vermont's school finance system. Finally, Chapter VII provides a brief description of the School Finance Equalization Management System which is being installed in the Vermont State Department of Education.

An Overview of Findings and Recommendations

EPRI's research addressed two basic questions: 1) How can educational resources in Vermont be distributed in a manner that provides greater equality of educational opportunity? and 2) How can educational revenues in Vermont be raised in a more adequate and equitable manner?

We found that there is a wide variation in both property wealth and income wealth among school districts in the state and that differences in the level of school expenditures are, on the average, directly related to the variation in districts' wealth. Although the distribution of state

aid is inversely related to the distribution of district property wealth, the funds allocated are not sufficient to overcome the differences in expenditures that are caused by disparities in district wealth. In addition, wealthy districts not only raise more revenues for education, but they usually do so with less effort. Finally, higher district expenditures tend to result in larger professional staffs, higher levels of teacher experience, larger median teacher salaries and the employment of more teachers with advanced training.

The State of Vermont should develop a school finance system which more accurately mirrors the distribution of both available resources and educational needs. Such a system must address the following questions:

1. How can pupils with differing educational needs receive additional resources?
2. What are the additional costs involved in meeting these needs?
3. Is the school finance system "fiscally neutral?"; that is, only the wealth of the state as a whole, not of its individual school districts, should affect the money available for a child's education.
4. What is an appropriate measure of district ability-to-pay?
5. How much of a local district's education bill should be paid by the state?

What follows is a summary of EPRI's findings and recommendations. We do not recommend the adoption of any one specific school finance formula. Rather, drawing on the quantitative analysis performed over the five month period, we have developed a series of findings and recommendations which

can be used to answer questions, such as those above, which are a prerequesite to formulating a new school finance program. These findings and recommendations, documented in Chapters II through VI of the Final Report, are grouped into four categories: Educational Need and Expenditures, Measurement and Distribution of Wealth, Impact of the Current School Finance System, and Data.

Educational Needs and Expenditures

Concern

The definition of educational need is the cornerstone of any school finance program. In order to provide equal educational opportunity, it is important to identify the educational needs of the students, to know where they live and go to school, and to direct the appropriate educational resources to those students. In Vermont state aid is distributed to the school district in which a student resides. The most meaningful analysis, therefore, would relate the distribution of educational expenditures to the distribution of students' educational needs in the districts where they live. The information needed to conduct this kind of analysis is of limited availability.

Findings

With the data available we have found that:

1. There is a marked variation in the level of school expenditures (2:1) among districts. This variation is directly related to differences in districts' property wealth and, to a slightly lesser extent, to differences in districts' income wealth.

2. Since 1970 "aidable" school expenditures have grown at an average rate of 9% a year. Aidable expenditures in 1975-76 were 6% higher than for the previous school year.

3. Special education enrollments are concentrated in eighty-three operating school districts of varying size, wealth and demographic characteristics.

4. The "enrollment ratio," or percentage of population enrolled in public schools, ranges from a low of 7% to a high of 43%.

5. While the overall enrollment has been declining over the last several years, secondary enrollment in Vermont schools has grown. This trend may change in the next five years, with a growth in elementary enrollments reflecting changing birth rate patterns. The cities tend to have fewer elementary students per total average daily membership than do other districts in the state.

6. A district's size does not affect the magnitude of its operating expenditures per pupil, but, in certain cases, size affects what portion of those expenditures are spent on transportation, administration, instruction, and so on.

Recommendations

In light of these findings, EPRI recommends that:

A. The State should determine to what extent pupils with differing educational needs should receive additional educational resources.

B. The State should consider these new measures of educational need in any new school finance plan.

C. The State should "cap" expenditures which are aided in an equalization formula in a way that reflects variations in educational need among districts, and differential costs among districts.

D. The State should aid the cost of transportation so that small, low-density districts can spend as large a portion of their budget on instruction as do other districts. This aid can be provided through a categorical aid program (by aiding state-approved transportation costs) or through a sparsity factor in the general aid formula.

Measurement and Distribution of Wealth

Concern

The total amount of money actually available to Vermont school districts to meet their educational needs is a sum of locally raised revenues, state aid, federal aid, and miscellaneous revenues. Since locally raised revenues provide approximately 64% of the total educational expenditures in Vermont, the district's ability to generate revenues and willingness to do so will determine, to a large extent, the expenditure level of the district. Therefore, a knowledge of how wealth and tax efforts are distributed among Vermont school districts will enable us to better understand the disparities in educational expenditures that exist in the State.

Findings

In studying the distribution of wealth in the State we have found that:

7. There is a wide range in the distribution of both property wealth (9:1) and income wealth (4:1) among districts.

8. What determines the income wealth of any school district is the incidence of unemployment in the district and the distribution of the 6% of the population in the state who earn more than $25,000. Income wealthy districts may have less than 3% unemployment and over 10% of their populations with annual incomes in excess of $25,000. Poor districts, in contrast, may have over 15% unemployment and less than 1% of their populations with annual incomes above $25,000.

9. Inclusion of social security payments in a measure of income wealth would not alter a district's level of income more than 2.2%, relative to the statewide average. The impact of including other transfer income, such as public assistance payments and unemployment benefits, would be even less.

10. The property wealth of a school district is the product of three factors: 1) the portion of the school district's Grand List owned by non-residents; 2) the way in which land is used in the districts (e.g., residential, farm, commercial, industrial, etc.); and 3) the size of the district's "enrollment ratio." School districts with lower "resident-ownership ratios" have relatively higher property wealth; districts whose non-resident-owned property is concentrated in the commercial and industrial categories have relatively greater wealth than towns whose non-resident-owned property is more concentrated in farm and timber uses; and districts with lower "enrollment ratios" have greater wealth than districts with higher ratios. If any one of the three characteristics for a given town is an extreme value, it will have the dominant influence.

11. There is a positive relationship between the property wealth and the income wealth of a school district. The basis for this relationship is the close correspondance between the income of a household and the value of that household's residence. The relationship is weakened by the random distribution across towns of the amount of non-resident-owned property and of "enrollment ratios." The cities deviate somewhat from the overall pattern because they have relatively large numbers of one and two-person households and they have a relatively high fraction of households living in multi-unit structures.

12. Wealthy districts not only raise more revenues for education, but, on the average, do so with lower property tax rates than poorer districts, and with a smaller proportion of their incomes spent on education.

13. The property tax rate actually chosen by a school district reflects both the district's resident-ownership ratio and the income of the residents of the district.

Recommendations

In light of these findings, EPRI recommends that:

E. The State should strive towards the development of a "fiscally neutral" school finance system, one in which the total wealth of the state, not the wealth of the individual districts, determines how much money is available for educational expenditures.

F. Since educational services are provided by the district as a single unit, and not by individuals, the measure of ability-to-pay should be at the district level, not the individual level. Individual ability-to-pay should be dealt with separately through the state's circuit breaker law.

G. The factors that should be considered in measuring a district's ability to support education include the average income of the residents of the district and the share of total property value that is owned by non-residents.

H. If property wealth is used as a measure of ability-to-pay in a new state aid formula, the assessment of property should be done on the state level.

Impact of the Current School Finance System

Concern

While education is the responsibility of the state, historically the provision of educational services and the raising of educational revenues has been delegated to local school districts. The role of state aid in the last decade has been to provide additional support to those districts financially unable to meet their responsibilities, and to some extent, to provide greater assistance to students with special educational needs. What is the impact of this locally-dominated system on the raising and distributing of educational revenues?

Findings: Revenue Raising

14. State and local government revenues are derived from three types of taxes in Vermont: income (44%), expenditure (23%) and wealth taxes (33%). While only one-third of all taxes that Vermonters pay are taxes on wealth or property, nearly

two-thirds of the dollars raised for education come from this source.

15. There is a consistent relationship, statewide, between a property's use and its assessment ratio; farm and timber properties are generally listed at a lower percentage of fair market value than other categories of property. One also finds differential assessment ratios within property categories. Both types of variation are directly related to the reassessment practices of local communities, and the patterns which result appear to reflect local listers' unwillingness to reassess property upward out of proportion to the owner's income.

16. In 1976, direct property tax payments by non-residents of the state amounted to 20 to 25 million dollars. The average Vermont taxpayer would have to pay an additional $180 if the property tax were replaced by a resident-based tax, such as an income tax.

17. The income tax appears to be the most efficient means of raising revenues at the state level, while the property tax appears to be the most efficient means for raising revenues at the local level. In the context of the overall state/local system, the principle of visibility, the value of collecting revenues from out-of-state residents, and the benefit of maintaining the broadest possible tax base within the state, both of these taxes make significant contributions.

Findings: Distribution of Educational Resources

18. Although state aid is distributed in an inverse relationship to district property wealth, the funds allocated are not sufficient to overcome the differences in expenditures that are caused by disparities in district wealth.

19. The total amount of categorical aid paid per student is related to the educational need of the district, not to its wealth. Districts of varying wealth receive approximately the same per pupil amounts of categorical aid.

20. The property tax rebate program is very effective in providing relief to low-income taxpayers. However, because these taxpayers reside throughout the state, in wealthy as well as poor districts, the program has no impact on reducing interdistrict wealth disparities.

21. Higher district expenditures result in more professional personnel. As a district's expenditures increase, the size of its professional staff increases, especially the number of classroom teachers and student services staff.

22. Higher district expenditures are associated with higher levels of teacher experience and median teacher salaries, and a smaller number of students in each classroom in the district. Higher expenditures also result in the district having a larger percentage of teachers with advanced training.

23. If aidable expenditures continue to grow at a rate of 6% per year, the proposed increases in formula aid to 39 million dollars in 1978-1979 will not alter the ratio of formula aid to aidable expenditures, currently at 26%.

24. If the State changes the substance of its school finance formula without 1) substantially increasing the State's contribution in relation to total educational expenditures; or 2) limiting local district expenditure levels; or 3) shifting most of the state aid payments to the poorest districts in the state, no greater equity will be achieved.

25. Based on simulations done for the Educational Finance Advisory Task Force, changing the definition of ability-to-pay without changing the state/local share factor or restricting district behavior, merely shifts state aid from one handful of districts to another. The large number of districts remain unaffected.

26. Shifting from a state aid formula which allocates aid in inverse proportion to the relative wealth of the districts to a formula which equalizes the burden on individual taxpayers would be disequalizing for students, in that it would shift state aid from middle-income taxpayers in poor districts to low-income taxpayers in wealthy districts.

Recommendations

I. The goal of a new school finance system should be to shift the state/local share of educational expenditures to a point closer to the national average of 44% state support.

J. A new school finance formula should incorporate the previously noted findings about the ability of Vermont school districts to support education.

K. A new formula should reflect the State's definition of educational need and the cost of meeting those needs.

L. Any new formula should be fully funded, either in the first year or through a guaranteed phase-in plan, and be tied to a revenue-raising plan which will generate the necessary new resources.

Data

Concern

A final concern of EPRI's research was the availability and reliability of data on which to base its analysis and the development of any new school finance formulas.

Findings

EPRI found that:

27. In collecting data on resident ownership ratios, four potential data quality problems exist: the definition of a resident is not clearcut; the resident ownership ratios are based on listed property values which may not reflect true relative values; residency may change from one year to the next, making these figures useable for two years at most; and the numbers used in calculating resident ownership ratios are hand-recorded and hand-collected, making clerical errors possible.

28. Most of the criticism of the Equalized Grand List arises from its nature as essentially a compromise between two approaches to property valuation: one which sees the valuation of property as essentially subjective and artibrary, and best determined by members of the local community, and one which sees the assessment process as essentially objective, subject to scientific methods and best accomplished by independent professional assessors.

29. The concern for collecting accurate data to simulate new school finance formulas should be tempered by a concern for the timing of that data. The use of outdated income or property wealth or property ownership data in a school aid

formula represents a greater source of potential error than the errors generated through inaccurate reporting of the data.

Recommendations

M. If the allocation of state aid is dependent upon data which is locally collected and reported, then incentives should be incorporated directly into the aid program if the state is to be assured of accurate information.

Vermont's Unfinished Agenda

Over the past five months the Task Force has raised several ancillary concerns that deserve attention. In addition, EPRI, in the course of its research, has uncovered a number of new research questions. This is to be expected since school finance reform is not a static process. The following is a list of activities which the State of Vermont should undertake as part of an ongoing system of evaluation and research.

1. Define educational needs more concretely in terms of grade-level, curriculum, mental and physical handicaps, and home environment; calculate the additional costs of meeting these educational needs; find the distribution of students with special educational needs; and determine how local districts and the State should share these additional costs.

2. Define a "basic educational program" and determine the costs of this program in different parts of the state.

3. Evaluate the efficiency of large versus small districts by relating the content of school programs, costs of these programs, special district characteristics, and the level of district expenditures.

4. Determine whether school districts should have a minimum size. Is there a valid need for twenty-eight non-operating school districts?

5. Further study the implications of alternative denominators (i.e. pupils, population, households, families) in measures of district wealth.

6. Study the overall impact on taxpayers of publicly financing school needs. In particular, what are the revenue sources of state aid to education and how do these sources relate to the distribution of state aid?

7. Given the concern over the uncertainty of how state aid to education revenues are raised and distributed each year, the State should study the advantages and disadvantages of earmarking portions of specific state taxes for this expenditure.

8. Explore ways to provide incentives for better data reporting.

9. Further analyze the interaction of those factors which determine whether a district is income wealthy and/or property wealthy, and the relative importance of these factors.

10. The Department of Education should continue to evaluate the impact state aid to education has on the raising and distributing of educational resources in Vermont and report this research on an annual basis.